



PSC NEWS

Missouri Public Service Commission

Contact: Kevin Kelly

Phone: (573) 751-9300

Governor Office Building, Suite 900

FY-03-118

CURRENT NATURAL GAS PRICES COULD MEAN SIGNIFICANTLY HIGHER GAS BILLS NEXT WINTER

Jefferson City (March 11, 2003)---Natural gas companies under Public Service Commission jurisdiction either have or are expected to file changes in their natural gas rates this month to reflect changes in wholesale supplier rates. With natural gas prices spiking to near record levels in late February, it is anticipated that most of the filings will reflect an increase in natural gas rates for Missouri consumers.

With the end of the winter heating season near, the impact of those changes are not likely to result in significant increases in the monthly natural gas bills of consumers now. What these changes now may reflect is a significant increase in natural gas rates as we head into next winter.

"There are a number of key factors in the natural gas industry that at the present time cause us a great deal of concern, not only today, but as we look towards the next winter heating season," stated Commission Chairman Kelvin Simmons. "Those factors include high crude oil prices, significantly lower natural gas storage levels, recent colder than normal weather and a possible war with Iraq."

"Natural gas storage inventories are problematic. We started the 2002-2003 winter heating season with high levels of storage but high demand for natural gas and climbing prices for that commodity have resulted in a rapid draw down of those levels," stated Chairman Simmons. "With about five weeks left in the winter heating season, we are approximately 40 percent below the 5-year average for natural gas storage. High market prices and any colder than normal weather will contribute to high storage withdrawals."

"I am very concerned that injection of natural gas into storage this summer at rates higher than the summer of 2002 will mean higher natural gas bills for consumers next winter," stated Chairman Simmons. "That is going to have an impact on the financial health of Missouri families and could very well lead to a larger number of disconnects because of non-payment during these difficult economic times."

Depending upon weather, the natural gas injection season typically begins in mid-April and goes until early November.

(more)

There are several factors causing the current spike in natural gas prices, these factors include:

Oil prices. Crude oil prices recently hit near a 12-year high at \$37.96/barrel. Concern over a possible war with Iraq and a disruption of Venezuelan oil production have raised crude oil prices. Industrial consumers can often use natural gas or oil and will switch fuels as prices for either fuel increase. As a result, a rise in oil prices often means natural gas demand and prices rise as well.

Weather. Recent colder than normal weather has driven the demand for space-heating. According to the Energy Information Administration, United States weather has been approximately 15 percent colder this winter versus last winter. Weather in much of the northeast has been significantly colder than normal this winter.

Natural gas production. According to the Energy Information Administration, production for the first 10 months of 2002 was 2.6 percent below 2001 levels. This is the result of a reduced number of new well completions and production declines from existing wells.

“The role of the Missouri Public Service Commission is limited when it comes to rate changes to reflect the actual cost of natural gas,” stated Chairman Simmons. **“The Commission does not regulate wholesale supplier rates.** The Missouri PSC does however perform a very valuable function in reviewing the purchasing practices of the local natural gas company to ensure that the company did purchase natural gas supplies for their customers prudently and that they made reasonable decisions in those purchases given the facts and circumstances that existed at the time those purchases were made. In addition, we continue to encourage local natural gas companies to consider purchasing strategies that incorporate storage, fixed price contracts and financial instruments to reduce upward price volatility for their customers,” stated Chairman Simmons.

“We will continue to fully explore all avenues to try and reduce upward price volatility for Missouri customers,” stated Chairman Simmons.